UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number: 000-50726

Google Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0493581**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1600 Amphitheatre Parkway

Mountain View, CA 94043

(Address of principal executive offices)

(Zip Code)

(650) 253-0000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At October 31, 2008, there were 239,534,290 shares of Google s Class A common stock and 75,219,823 shares of Google s Class B common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GOOGLE INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	As of December 31, 2007	As of September 30, 2008 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 6,081,593	$ 8,370,469
Marketable securities	8,137,020	6,042,140
Accounts receivable, net of allowance of $32,887 and $75,259	2,162,521	2,541,492
Deferred income taxes, net	68,538	111,401
Income taxes receivable, net	145,253	
Prepaid revenue share, expenses and other assets	694,213	897,349
Total current assets	17,289,138	17,962,851
Prepaid revenue share, expenses and other assets, non-current	168,530	456,378
Deferred income taxes, net, non-current	33,219	204,319
Non-marketable equity securities	1,059,694	1,100,896
Property and equipment, net	4,039,261	5,213,167
Intangible assets, net	446,596	1,047,717
Goodwill	2,299,368	4,821,646
Total assets	$ 25,335,806	$ 30,806,974
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 282,106	$ 240,706
Accrued compensation and benefits	588,390	622,658
Accrued expenses and other current liabilities	465,032	544,627
Accrued revenue share	522,001	515,949
Deferred revenue	178,073	200,378
Income taxes payable		99,959
Total current liabilities	2,035,602	2,224,277
Deferred revenue, non-current	30,249	29,992
Deferred income taxes, net, non-current		20,420
Income taxes payable, non-current	478,372	783,348
Other long-term liabilities	101,904	274,075
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, $0.001 par value, 100,000 shares authorized; no shares issued and outstanding		
Class A and Class B common stock, $0.001 par value: 9,000,000 shares authorized; 312,917 (Class A 236,097, Class B 76,820) and par value of $313 (Class A $236, Class B $77) and 314,587 (Class A 239,364, Class B 75,223) and par value of $315 (Class A $240, Class B $75) shares issued and outstanding, excluding 361 (Class	313	315

A 336, Class B 25) and 46 (Class A 46) shares subject to repurchase at December 31, 2007 and September 30, 2008		
Additional paid-in capital	13,241,221	14,194,197
Accumulated other comprehensive income	113,373	101,162
Retained earnings	9,334,772	13,179,188
Total stockholders equity	22,689,679	27,474,862
Total liabilities and stockholders equity	$ 25,335,806	$ 30,806,974

See accompanying notes.

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GOOGLE INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2008
	(unaudited)			
Revenues	$ 4,231,351	$ 5,541,391	$ 11,767,307	$ 16,094,646
Costs and expenses:				
Cost of revenues (including stock-based compensation expense of $4,031, $10,729, $16,080 and $29,240)	1,662,579	2,173,390	4,693,261	6,431,501
Research and development (including stock-based compensation expense of $130,655, $169,263, $408,425 and $550,343)	548,712	704,571	1,489,202	2,059,851
Sales and marketing (including stock-based compensation expense of $29,918, $64,497, $93,553 and $149,666)	380,820	508,801	1,038,976	1,440,252
General and administrative (including stock-based compensation expense of $33,352, $35,550, $105,288 and $104,345)	321,398	507,064	902,202	1,391,278
Total costs and expenses	2,913,509	3,893,826	8,123,641	11,322,882
Income from operations	1,317,842	1,647,565	3,643,666	4,771,764
Interest income and other, net	154,428	21,217	422,287	246,485
Income before income taxes	1,472,270	1,668,782	4,065,953	5,018,249
Provision for income taxes	402,281	378,844	1,068,682	1,173,833
Net income	$ 1,069,989	$ 1,289,938	$ 2,997,271	$ 3,844,416
Net income per share of Class A and Class B common stock:				
Basic	$ 3.44	$ 4.10	$ 9.66	$ 12.25
Diluted	$ 3.38	$ 4.06	$ 9.50	$ 12.10

See accompanying notes.

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GOOGLE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2007	2008
	(unaudited)	
Operating activities		
Net income	$ 2,997,271	$ 3,844,416
Adjustments:		
Depreciation and amortization of property and equipment	565,841	898,762
Amortization of intangibles and other	111,881	215,615
Stock-based compensation	623,346	833,594
Excess tax benefits from stock-based award activity	(238,577)	(114,770)
Deferred income taxes	(184,520)	(124,597)
Other, net	(7,215)	(14,488)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(559,425)	(218,326)
Income taxes, net	615,568	552,673
Prepaid revenue share, expenses and other assets	(237,262)	(169,959)
Accounts payable	20,155	(152,165)
Accrued expenses and other liabilities	206,522	162,882
Accrued revenue share	136,446	(4,433)
Deferred revenue	32,131	21,354
Net cash provided by operating activities	4,082,162	5,730,558
Investing activities		
Purchases of property and equipment	(1,724,631)	(1,990,617)
Purchases of marketable securities	(11,756,147)	(7,814,293)
Maturities and sales of marketable securities	11,519,001	9,634,903
Investments in non-marketable equity securities	(21,288)	(44,869)
Acquisitions, net of cash acquired and proceeds received from divestiture, and purchases of intangible and other assets	(823,092)	(3,287,708)
Net cash used in investing activities	(2,806,157)	(3,502,584)
Financing activities		
Net proceeds (payments) related to stock-based award activity	19,073	(38,252)
Excess tax benefits from stock-based award activity	238,577	114,770
Net cash provided by financing activities	257,650	76,518
Effect of exchange rate changes on cash and cash equivalents	28,078	(15,616)
Net increase in cash and cash equivalents	1,561,733	2,288,876
Cash and cash equivalents at beginning of year	3,544,671	6,081,593
Cash and cash equivalents at end of period	$ 5,106,404	$ 8,370,469

Supplemental disclosures of cash flow information

Cash paid for interest	$	1,032	$	1,291
Cash paid for income taxes	$	638,050	$	743,440

See accompanying notes.

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GOOGLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Google Inc. and Summary of Significant Accounting Policies

Nature of Operations

We were incorporated in California in September 1998. We were re-incorporated in the State of Delaware in August 2003. We provide highly targeted advertising and global internet search solutions as well as intranet solutions via an enterprise search appliance.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Google and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of September 30, 2008, the Consolidated Statements of Income for the three and nine months ended September 30, 2007 and 2008, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2008 are unaudited. These unaudited interim Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. In our opinion, the unaudited interim Consolidated Financial Statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of September 30, 2008, our results of operations for the three and nine months ended September 30, 2007 and 2008, and our cash flows for the nine months ended September 30, 2007 and 2008. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

These unaudited interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our 2007 Annual Report on Form 10-K filed on February 15, 2008.

Use of Estimates

The preparation of interim Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable, bad debt and sales allowances, fair values of marketable and non-marketable securities, fair values of prepaid revenue share, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of options to purchase our common stock, income taxes, and legal contingencies, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Effect of Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

In February 2008, the FASB issued Financial Staff Positions (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date of SFAS No. 157, *Fair Value Measurement* (SFAS 157), for all nonfinancial assets

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and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. FSP 157-2 is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of those provisions of SFAS 157, for which effectiveness was delayed by FSP 157-2, on our consolidated financial position and results of operations.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of FSP 142-3 on our consolidated financial position, results of operations and cash flows.

In October 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* (FSP 157-3), to clarify how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially impact our consolidated financial position, results of operations and cash flows as of and for the period ended September 30, 2008.

Note 2. Net Income per Share of Class A and Class B common stock

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock (in thousands, except per share amounts, unaudited):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2007		2008		2007		2008	
	(unaudited)							
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income per share:								
Numerator:								
Allocation of undistributed earnings	$ 798,259	$ 271,730	$ 980,865	$ 309,073	$ 2,225,486	$ 771,785	$ 2,916,217	$ 928,199
Denominator:								
Weighted average common shares outstanding	232,703	79,136	239,002	75,295	231,111	80,065	238,130	75,757
Less: Weighted average unvested common shares subject to repurchase or cancellation	(519)	(99)	(54)	(2)	(694)	(158)	(148)	(10)
Number of shares used in per share computations	232,184	79,037	238,948	75,293	230,417	79,907	237,982	75,747
Basic net income per share	$ 3.44	$ 3.44	$ 4.10	$ 4.10	$ 9.66	$ 9.66	$ 12.25	$ 12.25
Diluted net income per share:								
Numerator:								
Allocation of undistributed earnings for basic computation	$ 798,259	$ 271,730	$ 980,865	$ 309,073	$ 2,225,486	$ 771,785	$ 2,916,217	$ 928,199
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	271,730		309,073		771,785		928,199	

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	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2007		2008		2007		2008	
	(unaudited)							
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Reallocation of undistributed earnings to Class B shares		(2,076)		(2,622)		(4,765)		(8,386)
Allocation of undistributed earnings	$ 1,069,989	$ 269,654	$ 1,289,938	$ 306,451	$ 2,997,271	$ 767,020	$ 3,844,416	$ 919,813
Denominator:								
Number of shares used in basic computation	232,184	79,037	238,948	75,293	230,417	79,907	237,982	75,747
Weighted average effect of dilutive securities								
Add:								
Conversion of Class B to Class A common shares outstanding	79,037		75,293		79,907		75,747	
Unvested common shares subject to repurchase or cancellation	618	99	56	2	852	158	158	10
Employee stock options including warrants issued under TSO program (see Note 12)	3,719	646	2,871	200	3,537	709	3,128	263
Restricted shares and restricted stock units	1,018		608		925		715	
Number of shares used in per share computations	316,576	79,782	317,776	75,495	315,638	80,774	317,730	76,020
Diluted net income per share	$ 3.38	$ 3.38	$ 4.06	$ 4.06	$ 9.50	$ 9.50	$ 12.10	$ 12.10

The net income per share amounts are the same for Class A and Class B because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Certain securities have been excluded from our net income per share computation because their effect was anti-dilutive. The number of shares excluded was not material in any of the periods presented.

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Note 3. Cash and Investments

We have classified our investments in auction rate securities as non-current assets on the accompanying Consolidated Balance Sheet at September 30, 2008. As of December 31, 2007, these securities were classified as marketable securities. As a result, these amounts have been excluded from the September 30, 2008 balances in the tables below.

Cash, cash equivalents and marketable securities consists of the following (in thousands):

	As of December 31, 2007	As of September 30, 2008 (unaudited)
Cash and cash equivalents:		
Cash	$ 2,869,528	$ 3,559,448
Cash equivalents:		
U.S. government notes		8,995
U.S. government agencies	110,272	234,488
Municipal securities	232,278	81,527
Time deposits	500,000	2,004,511
Money market mutual funds	2,369,515	2,481,500
Total cash and cash equivalents	6,081,593	8,370,469
Marketable securities:		
U.S. government notes	475,781	247,021
U.S. government agencies	2,120,972	707,430
Municipal securities	4,991,564	5,087,689
Time deposits	500,000	
Auction rate preferred securities	48,703	
Total marketable securities	8,137,020	6,042,140
Total cash, cash equivalents and marketable securities	$ 14,218,613	$ 14,412,609

The following table summarizes unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in thousands):

	As of December 31, 2007			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes	$ 472,040	$ 3,745	$ (4)	$ 475,781
U.S. government agencies	2,102,710	18,306	(44)	2,120,972
Municipal securities	4,975,587	16,308	(331)	4,991,564
Time deposits	500,000			500,000
Auction rate preferred securities	48,703			48,703
Total marketable securities	$ 8,099,040	$ 38,359	$ (379)	$ 8,137,020

	As of September 30, 2008			
				Fair Value

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	
		(unaudited)		
U.S. government notes	$ 246,327	$ 916	$ (222)	$ 247,021
U.S. government agencies	708,972	114	(1,656)	707,430
Municipal securities	5,096,755	10,360	(19,426)	5,087,689
Total marketable securities	$ 6,052,054	$ 11,390	$ (21,304)	$ 6,042,140

Time deposits were held by institutions outside the U.S. at December 31, 2007 and at September 30, 2008. Gross unrealized gains and losses on cash equivalents were not material at December 31, 2007 and September 30, 2008.

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We recognized gross realized gains of $12.9 million and $45.2 million on the sale of our marketable securities during the three and nine months ended September 30, 2007. We recognized gross realized losses of $2.9 million and $28.2 million during the three and nine months ended September 30, 2007. We recognized gross realized gains of $12.6 million and $71.5 million on the sale of our marketable securities during three and nine months ended September 30, 2008. Gross realized losses were not material in the three and nine months ended September 30, 2008. There were no other-than-temporary impairments to our marketable securities in the three and nine months ended September 30, 2007 and 2008. Realized gains and losses are included in interest income and other, net, in our accompanying Consolidated Statements of Income.

The following table summarizes the estimated fair value of our investments in marketable debt securities designated as available-for-sale classified by the contractual maturity date of the security (in thousands):

	As of December 31, 2007	As of September 30, 2008 (unaudited)
Due within 1 year	$ 1,964,325	$ 1,077,839
Due in 1 to 5 years	3,359,472	3,149,165
Due in 5 to 10 years	310,332	276,549
Due after 10 years	2,454,188	1,538,587
Total marketable debt securities	$ 8,088,317	$ 6,042,140

In accordance with EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2007 and September 30, 2008, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of December 31, 2007					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government notes	$ 30,525	$ (4)	$	$	$ 30,525	$ (4)
U.S. government agencies	98,682	(41)	19,993	(3)	118,675	(44)
Municipal securities	270,708	(227)	54,832	(104)	325,540	(331)
Total	$ 399,915	$ (272)	$ 74,825	$ (107)	$ 474,740	$ (379)

	As of September 30, 2008			
	Less than 12 Months		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government notes	$ 35,343	$ (222)	$ 35,343	$ (222)
U.S. government agencies	514,899	(1,656)	514,899	(1,656)
Municipal securities	2,631,304	(19,426)	2,631,304	(19,426)
Total	$ 3,181,546	$ (21,304)	$ 3,181,546	$ (21,304)

As of September 30, 2008, we did not have any investments in marketable securities that were in an unrealized loss position for 12 months or greater.

Auction Rate Securities

At September 30, 2008, we held $233.9 million of auction rate securities (ARS). The assets underlying these 37 individual investments are primarily student loans which are mostly AAA rated and substantially guaranteed by the U.S. government under the Federal Family Education Loan Program. Historically, these securities have provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals every 7 to 49 days. However, these auctions began to fail in the first quarter of 2008. Since these auctions have failed, we have realized higher interest rates for many of these ARS than we would have otherwise. Although we have been receiving interest payments at these rates, the related principal amounts will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuer calls the security, or the security matures according to contractual terms. Maturity dates for these ARS investments range from 2015 to 2047. Since these auctions have failed, $25.7 million of the related securities were called at par by their issuers.

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As a result of the auction failures, these ARS do not have a readily determinable market value. To estimate their fair values at September 30, 2008, we used a discounted cash flow model based on estimated interest rates, timing and amount of cash flows, the credit quality of the underlying securities and illiquidity considerations. Specifically, we estimated the future cash flows of our ARS over the expected workout periods using a projected weighted average interest rate of 5.7% per annum, which is based on the forward swap curve at the end of September 2008 plus any additional basis points currently paid by the issuers assuming these auctions continue to fail. A discount factor was applied over these estimated cash flows of our ARS, which is calculated based on the interpolated forward swap curve adjusted by up to 525 basis points to reflect the current market conditions for instruments with similar credit quality at the date of the valuation and additionally adjusted for a liquidity discount of up to 400 basis points to reflect the risk in the marketplace for these investments that has arisen due to the lack of an active market.

At September 30, 2008, the estimated fair values of these ARS were $10.8 million ($6.4 million, net of tax effect) less than their costs. Based primarily on the period of time and the extent of the impairment, as well as our ability to hold these securities for an extended period of time without materially affecting our liquidity needs, we concluded it was temporary and recorded it to accumulated other comprehensive income on the accompanying Consolidated Balance Sheet at September 30, 2008.

To the extent we determine that any impairment is other-than-temporary, we would record a charge to earnings. In addition, we have concluded that the auctions for these securities may continue to fail for at least the next 12 months and as a result, they have been classified as non-current assets on our Consolidated Balance Sheet at September 30, 2008.

Investment in America Online (AOL)

We review our investment in AOL for impairment in accordance with FSP SFAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1). Based on our review, we believe our investment in AOL is impaired. After consideration of the duration of the impairment, as well as the reasons for any decline in value and the potential recovery period, we do not believe that such impairment is   other-than-temporary   at September 30, 2008 as defined under FSP 115-1. As a result, our investment in this non-marketable equity security is carried at cost on our Consolidated Balance Sheets. We will continue to review this investment for impairment on a quarterly basis. There can be no assurance that impairment charges will not be required in the future, and any such amounts could be material to our Consolidated Statements of Income.

Note 4. Derivative Financial Instruments

We enter into foreign currency contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. Our program is not designated for trading or speculative purposes.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in the fair value (i.e., gains or losses) of the derivatives are recorded in the accompanying Consolidated Statements of Income as interest income and other, net, or as part of revenues, or on the accompanying Consolidated Balance Sheets as accumulated other comprehensive income.

Cash Flow Hedges

We use options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. Any gain on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified to revenues when the hedged exposure affects revenues or as interest income and other, net, if the hedged transaction becomes probable of not occurring. The effective portion of our cash flow hedges, which we reclassified to revenues from accumulated other comprehensive income, was $34.2 million and $38.9 million for the three and nine months ended September 30, 2008.

At September 30, 2008, the effective portion of our cash flow hedges before tax effect was $83.7 million, substantially all of which is expected to be reclassified from accumulated other comprehensive income to revenues within 12 months.

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Any gain after a hedge is de-designated because the hedged transaction is no longer probable of occurring or related to an ineffective portion of a hedge is recognized as interest income and other, net, immediately. The ineffective portion of our cash flow hedges was $1.0 million and $1.1 million for the three and nine months ended September 30, 2008. Further, the change in the time value of the options is excluded from our assessment of hedge effectiveness. The premium paid or time value of an option whose strike price is equal to or greater than the market price on the date of purchase is recorded as an asset. Thereafter, any change to this time value is included in interest income and other, net. Amounts recorded in interest income and other, net were $65.6 million and $94.6 million for the three and nine months ended September 30, 2008.

At September 30, 2008, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Euros were 1.6 billion (or approximately $2.4 billion) and $118.5 million; the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars and Euros with British pounds were £1.1 billion (or approximately $1.9 billion) and $34.7 million; and the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were C$162.9 million (or approximately $154.7 million) and $3.6 million. These foreign exchange options have maturities of 18 months or less. There were no other foreign exchange contracts designated as cash flow hedges.

Other Derivatives

Other derivatives not designated as hedging instruments under SFAS 133 consist of forward contracts that we use to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency of the subsidiary. Gains and losses on these contracts as well as the related costs are included in interest income and other, net, along with the gains and losses of the related hedged items. During the three and nine months ended September 30, 2008, we recognized $10.8 million and $24.7 million of costs related to these contracts. Costs incurred during the three and nine months ended September 30, 2007 were not material. The fair value of these foreign exchange contracts was not material at December 31, 2007 and September 30, 2008. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $1.5 billion and $2.6 billion at December 31, 2007 and September 30, 2008. The notional principal of foreign exchange contracts to sell U.S. dollars for foreign currencies was $23.2 million at September 30, 2008. The notional principal of foreign exchange contracts to purchase Euros with other currencies was 296.5 million (or approximately $433.4 million) and 534.6 million (or approximately $780.8 million) at December 31, 2007 and September 30, 2008.

Note 5. Fair Value Measurements

Effective January 1, 2008, we adopted SFAS 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, we measure our cash equivalents, marketable securities, auction rate securities and foreign currency derivative contracts at fair value. Our cash equivalents and marketable securities are classified within Level 1 or Level 2. This is because our cash equivalents and marketable securities are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Our investments in auction rate securities are classified within Level 3 because they are valued using a discounted cash flow model (see Note 3). Some of the inputs to this model are unobservable in the market and are significant. Our foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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Assets and liabilities measured at fair value are summarized below (unaudited, in thousands):

Description	September 30, 2008	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
U.S. government notes	$ 8,995	$	$ 8,995	$
U.S. government agencies	234,488		234,488	
Municipal securities	81,527		81,527	
Time deposits	2,004,511		2,004,511	
Money market mutual funds	2,481,500	2,481,500		
Marketable securities:				
U.S. government notes	247,021		247,021	
U.S. government agencies	707,430		707,430	
Municipal securities	5,087,689		5,087,689	
Foreign currency derivative contracts	157,307		157,307	
Auction rate securities	233,854			233,854
Total assets	$ 11,244,322	$ 2,481,500	$ 8,528,968	$ 233,854
Liabilities				
Foreign currency derivative contracts	$ 786	$	$ 786	$
Total liabilities	$ 786	$	$ 786	$

The following table presents our assets measured at fair value using significant unobservable inputs (Level 3) as defined in SFAS 157 at September 30, 2008 (unaudited, in thousands):

	Level 3
Balance at December 31, 2007	$
Transfers to Level 3	311,225
Unrealized loss included in other comprehensive income	(10,842)
Net settlements	(66,529)
Balance at September 30, 2008	$ 233,854

Effective January 1, 2008, we also adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115*, which allows an entity to choose to measure certain financial instruments and liabilities at fair value on a contract-by-contract basis. Subsequent fair value measurement for the financial instruments and liabilities an entity chooses to measure will be recognized in earnings. As of September 30, 2008, we did not elect such option for our financial instruments and liabilities.

Note 6. Property and Equipment

Property and equipment consist of the following (in thousands):

	As of December 31, 2007	As of September 30, 2008 (unaudited)

Information technology assets	$ 2,734,916	$ 3,393,749
Construction in process	1,364,651	1,979,963
Land and buildings	951,334	1,336,745
Leasehold improvements	416,884	553,508
Furniture and fixtures	52,127	61,827
Total	5,519,912	7,325,792
Less accumulated depreciation and amortization	1,480,651	2,112,625
Property and equipment, net	$ 4,039,261	$ 5,213,167

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Note 7. Acquisitions

In March 2008, we acquired Click Holding Corp. (DoubleClick), a company that offers online ad serving and management services to advertisers, ad agencies and web site publishers. We acquired DoubleClick primarily for their customer relationships, as well as patents and developed technology. This transaction was accounted for as a business combination. In August 2008, we sold the search marketing business of Performics, a division of DoubleClick for approximately $53 million paid in cash. As the sale of Performics was planned at the time of the acquisition of DoubleClick, the proceeds from the sale are netted against the purchase price of DoubleClick. The total net purchase price of DoubleClick was $3.2 billion paid in cash, including transaction costs of $70.4 million.

The following table summarizes the allocation of the purchase price of DoubleClick as of September 30, 2008 (unaudited, in thousands):

Goodwill	$ 2,337,814
Customer relationships	629,600
Patents and developed technology	143,400
Tradenames and other	27,800
Net assets acquired	85,683
Deferred tax assets	270,262
Deferred tax liabilities	(301,179)
Total	$ 3,193,380

Goodwill is not deductible for tax purposes.

Customer relationships have a weighted-average useful life of 6.7 years. Patents and developed technology have a weighted-average useful life of 5.0 years. Tradenames and other have a weighted-average useful life of 5.5 years. The majority of these assets are not deductible for tax purposes.

Supplemental information on an unaudited pro forma basis, as if the DoubleClick acquisition had been consummated at the beginning of each of the periods presented, is as follows (in millions, except per share amounts):

	Nine Months Ended September 30,	
	2007	2008
	(unaudited)	
Revenues	$ 11,995	$ 16,164
Net income	2,811	3,815
Net income per share of Class A and Class B common stock - diluted	8.91	12.01

The unaudited pro forma supplemental information is based on estimates and assumptions, which we believe are reasonable. It is not necessarily indicative of our consolidated financial position or results of income in future periods or the results that actually would have been realized had we been a combined company as of the beginning of the periods presented. The unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisition, net of the related tax effects.

In connection with certain acquisitions in prior periods, we are obligated to make additional cash payments if certain criteria are met. As of September 30, 2008, our remaining contingent obligations related to these acquisitions was approximately $582.2 million, which if the criteria are met, would be recorded as part of the purchase price. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Note 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 are as follows (in thousands):

Balance as of December 31, 2007	$ 2,299,368
Goodwill acquired, net of divestiture	2,348,146
Goodwill adjustment	174,131
Balance as of September 30, 2008	$ 4,821,645

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The goodwill adjustment of $174.1 million was primarily a result of contingent payments earned upon the achievement of certain performance targets.

Information regarding our acquisition-related intangible assets that are being amortized is as follows (in thousands):

	As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 364,937	$ 179,102	$ 185,835
Customer relationships	171,876	37,738	134,138
Tradenames and other	196,392	69,769	126,623
Total	$ 733,205	$ 286,609	$ 446,596

	As of September 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(unaudited)	
Patents and developed technology	$ 527,573	$ 268,883	$ 258,690
Customer relationships	801,476	122,758	678,718
Tradenames and other	215,217	104,908	110,309
Total	$ 1,544,266	$ 496,549	$ 1,047,717

Amortization expense of acquisition-related intangible assets for the three and nine months ended September 30, 2007 was $40.9 million and $111.5 million and for the three and nine months ended September 30, 2008 was $76.0 million and $210.7 million. Expected amortization expense for acquisition-related intangible assets on our September 30, 2008 Consolidated Balance Sheet for the remainder of 2008 and each of the next five years and thereafter is as follows (unaudited, in thousands):

Remainder of 2008	$ 72,167
2009	251,873
2010	220,990
2011	168,185
2012	129,790
2013	103,686
Thereafter	101,026
	$ 1,047,717

Note 9. Interest Income and Other, Net

The components of interest income and other, net were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
		(unaudited)		
Interest income	$ 146,114	$ 90,996	$ 414,574	$ 301,086

Realized gains on marketable securities, net	9,977	10,939	17,005	64,762
Foreign exchange gains (losses), net	2,760	(81,470)	(2,315)	(122,477)
Other	(4,423)	752	(6,977)	3,114
Interest income and other, net	$ 154,428	$ 21,217	$ 422,287	$ 246,485

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Note 10. Comprehensive Income

The changes in the components of other comprehensive income were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
		(unaudited)		
Net income	$ 1,069,989	$ 1,289,938	$ 2,997,271	$ 3,844,416
Change in unrealized gains (losses) on marketable securities, net of taxes	29,974	(1,546)	16,323	(34,637)
Change in cumulative translation adjustment	22,322	(65,588)	41,910	(27,167)
Change in unrealized gains on cash flow hedges, net of taxes		49,128		49,593
Comprehensive income	$ 1,122,285	$ 1,271,932	$ 3,055,504	$ 3,832,205

The components of accumulated other comprehensive income were as follows (in thousands):

	As of December 31, 2007	As of September 30, 2008 (unaudited)
Unrealized gains (losses) on marketable securities, net of taxes	$ 22,501	$ (12,136)
Cumulative translation adjustment	90,872	63,705
Unrealized gains on cash flow hedges, net of taxes		49,593
Accumulated other comprehensive income	$ 113,373	$ 101,162

Note 11. Contingencies

Legal Matters

Companies have filed trademark infringement and related claims against us over the display of ads in response to user queries that include trademark terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. We currently have three cases pending at the European Court of Justice, which will address questions regarding whether advertisers and search engines can be held liable for use of trademarked terms in keyword advertising. We are litigating, or have recently litigated similar issues in other cases, in the U.S., Australia, Austria, Brazil, China, France, Germany, Israel, and Italy.

We have also had copyright claims filed against us by companies alleging that features of certain of our products and services, including Google Web Search, Google News, Google Video, Google Image Search, Google Book Search and YouTube, infringe their rights. In the U.S. we recently announced a settlement with the Authors Guild and the Association of American Publishers (AAP) (see Note 15), however this class action is subject to approval by the U.S. District Court for the Southern District of New York and we are subject to additional claims with respect to Google Book Search in other parts of the world. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements or orders preventing us from offering certain functionalities, and may also result in a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business. In addition, any time one of our products or services links to or hosts material in which others allegedly own copyrights, we face the risk of being sued for copyright infringement or related claims. Because these products and services comprise the majority of our products and services, our business could be harmed in the event of an adverse result in any of these claims.

We have also had patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, and Google AdSense, infringe patents held by others. In addition, the number of demands for license fees and the dollar amounts associated with each request continue to increase. Adverse results in these lawsuits, or our decision to license patents based upon these demands, may result in substantial costs and, in the case of adverse litigation rulings, could prevent us from offering certain features, functionalities, products or services, which could result in a loss of revenue for us or otherwise harm our business.

We are also a party to other litigation and subject to claims incident to the ordinary course of business, including intellectual property claims (in addition to the trademark and copyright matters noted above), labor and employment claims, breach of contract claims, tax and other matters.

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Although the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of the matters discussed above will not have a material adverse effect on our business, consolidated financial position, results of operations and cash flows.

Income Taxes

We are currently under audit by the Internal Revenue Service and various other tax authorities. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and we believe that the final outcome of these examinations or agreements will not have a material effect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of tax benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities are less than the ultimate assessment, a further charge to expense would result.

Note 12. Stockholders Equity

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted in the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
	(unaudited)			
Risk-free interest rate	4.5%	3.3%	4.6%	3.2%
Expected volatility	29%	35%	29%	35%
Expected life (in years)	5.6	5.3	4.7	5.3
Dividend yield				
Weighted-average estimated fair value of options granted during the period	$ 193.29	$ 196.86	$ 163.14	$ 205.27

The following table summarizes the activity for our options for the nine months ended September 30, 2008:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions) (1)
	(unaudited)			
Balance at December 31, 2007	12,892,886	$ 333.62		
Options granted	3,081,322	$ 505.42		
Exercised (2)	(1,241,200)	$ 66.33		
Canceled/forfeited	(442,391)	$ 438.40		
Balance at September 30, 2008	14,290,617	$ 385.63	7.2	$ 898.7
Vested and exercisable as of September 30, 2008	6,121,888	$ 253.40	6.6	$ 731.0
Vested and exercisable as of September 30, 2008 and expected to vest thereafter (3)	13,641,957	$ 381.24	7.2	$ 886.2

(1) The aggregate intrinsic value is calculated as the excess, if any, of the closing price of $400.52 of our Class A common stock on September 30, 2008 over the exercise price of the underlying awards.

(2) Includes options vested during the period that were early exercised.

(3) Options expected to vest reflect an estimated forfeiture rate.

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The following table summarizes additional information regarding outstanding, exercisable and exercisable and vested stock options at September 30, 2008:

	Options Outstanding					Options Exercisable		Options Exercisable and Vested	
Range of Exercise Prices	**Total Number of Shares**	**Unvested Options Granted and Exercised Subsequent to March 21, 2002**	**Number of Shares**	**Weighted-Average Remaining Life (Years)**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
$ 0.30 94.80	1,620,800	46,039	1,574,761	5.0	$ 19.52	1,491,296	$ 18.23	1,255,330	$ 19.48
$117.84 $198.41	1,593,173		1,593,173	4.6	$ 176.68	1,397,266	$ 175.40	1,391,785	$ 175.53
$205.96 $298.91	1,356,081		1,356,081	5.4	$ 274.52	1,017,204	$ 273.84	1,016,771	$ 273.83
$300.97 $399.00	1,704,949		1,704,949	5.9	$ 329.82	1,146,126	$ 327.29	1,141,241	$ 327.32
$401.78 $499.07	1,665,874		1,665,874	7.8	$ 450.99	655,148	$ 444.96	653,699	$ 444.96
$500.00 594.05	6,094,660		6,094,660	9.0	$ 545.50	664,055	$ 512.21	662,572	$ 512.22
$615.95 $699.35	203,937		203,937	9.2	$ 655.40	370	$ 639.92	370	$ 639.92
$707.00 $732.94	51,143		51,143	9.1	$ 718.15	120	$ 707.00	120	$ 707.00
$ 0.30 $732.94	14,290,617	46,039	14,244,578	7.2	$ 385.63	6,371,585	$ 244.51	6,121,888	$ 253.40

Options outstanding at September 30, 2008 in the above tables include 46,039 options granted and exercised subsequent to March 21, 2002 that are unvested at September 30, 2008, in accordance with EITF Issue No. 00-23, *Issues Related to Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44*. However, the computations of the weighted-average exercise prices, weighted-average remaining contractual term and aggregate intrinsic value do not consider these unvested shares. Further, the above tables include 1,417,501 warrants held by financial institutions that were options purchased from employees under our Transferable Stock Option (TSO) program.

The total grant date fair value of stock options vested during the three and nine months ended September 30, 2008 was $141.2 million and $461.2 million. The total grant date fair value of stock options vested during the three and nine months ended September 30, 2007 was $152.4 million and $441.0 million. The aggregate intrinsic value of all options exercised for the three and nine months ended September 30, 2008 was $64.4 million and $424.2 million. The aggregate intrinsic value of all options exercised for the three and nine months ended September 30, 2007 was $179.1 million and $823.7 million. These amounts do not include the aggregate sales price of options sold under our TSO program.

During the nine months ended September 30, 2008, the number of shares underlying TSOs sold to selected financial institutions under the TSO program was 493,102 at a total value of $136.3 million, or an average of $276.46 per share, and an average premium of $38.28 per share. The premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO. At September 30, 2008, the number of options eligible for participation under the TSO program was 10.6 million.

As of September 30, 2008, there was $1,242.4 million of unrecognized compensation cost related to outstanding employee stock options, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 3.0 years. To the extent the forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

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The following table summarizes the activity for our unvested restricted stock units and restricted shares for the nine months ended September 30, 2008:

	Unvested Restricted Stock Units and Restricted Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value
	(unaudited)	
Unvested at December 31, 2007	2,990,222	$ 526.92
Granted	1,427,527	$ 483.21
Vested	(566,413)	$ 397.12
Forfeited	(227,093)	$ 521.30
Unvested at September 30, 2008	3,624,243	$ 529.41
Expected to vest after September 30, 2008 (1)	3,353,512	$ 529.41

(1) Restricted stock units and restricted shares expected to vest reflect an estimated forfeiture rate.

As of September 30, 2008, there was $1,485.7 million of unrecognized compensation cost related to employee unvested restricted stock units and restricted shares, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 3.0 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Note 13. Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Financial Standards Accounting Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Our total unrecognized tax benefits as of December 31, 2007 and September 30, 2008 were $387.2 million and $627.5 million. Also, our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $283.5 million and $478.6 million as of December 31, 2007 and September 30, 2008. The increase in our unrecognized tax benefits during the nine months ended September 30, 2008 was primarily related to uncertain tax positions on our international structure.

On October 1, 2008, the state of California enacted a law to establish a 20% penalty applicable to corporations that underpay their taxes by an amount that is greater than one million dollars. On October 3, 2008, the United States enacted a law, the Emergency Economic Stabilization Act of 2008, which contains the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 . Under this act, the federal research and development credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. The effects of these changes in the tax law will be determined and recognized in the fourth quarter, which is the quarter in which the laws were enacted.

Note 14. Information about Geographic Areas

Our chief operating decision-makers (i.e., our chief executive officer, his direct reports and our presidents) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by our chief operating decision-makers, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. Accordingly, we consider ourselves to be in a single reporting segment and operating unit structure.

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Revenues by geography are based on the billing addresses of the advertisers. The following table sets forth revenues and long-lived assets by geographic area (in thousands):

	Three Months Ended			Nine Months Ended	
	September 30, 2007	June 30, 2008	September 30, 2008	September 30, 2007	September 30, 2008
			(unaudited)		
Revenues:					
United States	$ 2,205,809	$ 2,567,024	$ 2,695,012	$ 6,192,133	$ 7,797,510
United Kingdom	661,016	773,958	776,160	1,838,889	2,353,091
Rest of the world	1,364,526	2,026,230	2,070,219	3,736,285	5,944,045
Total revenues	$ 4,231,351	$ 5,367,212	$ 5,541,391	$ 11,767,307	$ 16,094,646

	As of December 31, 2007	As of September 30, 2008 (unaudited)
Long-lived assets:		
United States	$ 7,334,877	$ 11,505,909
International	711,791	1,299,343
Total long-lived assets	$ 8,046,668	$ 12,805,252

Note 15. Subsequent Event

On October 28, 2008, we announced a settlement agreement with the Authors Guild and AAP. If approved, the agreement will resolve a class-action lawsuit brought by book authors and the Authors Guild, as well as a separate lawsuit filed by five large publishers as representatives of the AAP s membership. In addition, the agreement enables them to receive compensation for online access to their works through a revenue sharing commercial arrangement. The class action is subject to approval by the U.S. District Court for the Southern District of New York.

Under the agreement, we will make payments totaling approximately $125 million, which will be used to establish the Book Rights Registry (a non-profit organization that will administer licensing rights and disburse payments to authors and publishers), to resolve existing claims by authors and publishers and to cover legal fees. This obligation was accrued as of September 30, 2008. For accounting purposes, $95.1 million was determined to be the fair value of the settlement portion of the agreement and was expensed in the quarter ended September 30, 2008, and $29.9 million was determined to be the fair value of the commercial portion of the agreement and will be amortized over an estimated useful life of seven years beginning with the commencement of the commercial arrangement. The tax benefit related to the settlement portion of the agreement was $38.9 million and was recognized in the quarter ended September 30, 2008.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements concerning our expectations:

regarding the growth and growth rate of our operations, business, revenues, operating margins;

that seasonal fluctuations in internet usage and traditional advertising seasonality are likely to affect our business;

that growth in advertising revenues from our web sites will continue to exceed that from our Google Network members web sites;

regarding our future stock-based compensation charges;

that we will continue to pay most of the Google AdSense fees we receive from advertisers to our Google Network members;

that we will continue to take steps to improve the relevance of the ads we deliver;

that we may continue to take steps to reduce the number of accidental clicks;

that we will continue to make investments and acquisitions;

that our cost of revenues and traffic acquisition costs may increase in dollars and as a percentage of revenues;

regarding the increase of research and development, sales and marketing and general and administrative expenses in the future;

regarding the increase of costs related to hedging activity under our foreign exchange risk management program;

regarding quarterly fluctuations in paid clicks;

regarding the sufficiency of our existing cash, cash equivalents, marketable securities and cash generated from operations;

regarding quarterly fluctuations in our effective tax rate;

regarding continued investments in international markets;

as well as other statements regarding our future operations, financial condition and prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under the heading Risk Factors in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and related notes included elsewhere in this report.

Overview

Google is a global technology leader focused on improving the ways people connect with information. Our innovations in web search and advertising have made our web site a top internet property and our brand one of the most recognized in the world. Our mission is to organize the world s information and make it universally accessible and useful. We serve three primary constituencies:

Users. We provide users with products and services that enable people to more quickly and easily find, create and organize information that is useful to them.

Advertisers. We provide advertisers with cost-effective ways to deliver online ads, as well as ads on traditional media such as TV, print and radio, to customers across Google sites and through the Google Network, which is the network of online and offline third parties that use our advertising programs to deliver relevant ads with their search results and content.

Google Network Members and Other Content Providers. We provide the online and offline members of our Google Network with our Google AdSense programs. These include programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver audio ads on radio broadcasts, print ads for display in newspapers and magazines, and ads on television. We share most of the fees these ads generate with our Google Network members, thereby creating an important revenue stream for them. In addition, we have entered into arrangements with other content providers under which we distribute or license their video and other content, and we may display ads next to or as part of this content on the pages of our web sites and our Google Network members web sites. We share most of the fees these ads generate with these content providers and our Google Network members, thereby creating an important revenue stream for these partners.

How We Generate Revenue

Advertising revenues made up 97% of our revenues for the three and nine months ended September 30, 2008 and 99% for the three and nine months ended September 30, 2007. We derive most of our additional revenues from offering internet ad serving and management services to advertisers and ad agencies, the license of our web search technology and the license of our search solutions to enterprises.

Google AdWords is our automated online program that enables advertisers to place targeted text-based and display ads on our web sites and our Google Network members web sites. Most of our AdWords customers pay us on a cost-per-click basis, which means that an advertiser pays us only when a user clicks on one of its ads. We also offer AdWords on a cost-per-impression basis that enables advertisers to pay us based on the number of times their ads appear on our web sites and our Google Network members web sites as specified by the advertiser. For advertisers using our AdWords cost-per-click pricing, we recognize as revenue the fees charged advertisers each time a user clicks on one of the ads that appears next to the search results on our web sites or next to the search results or content on our Google Network members web sites. For advertisers using our AdWords cost-per-impression pricing, we recognize as revenue the fees charged advertisers each time their ads are displayed on the Google Network members web sites. Our AdWords agreements are generally terminable at any time by our advertisers.

Google AdSense refers to the online programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver audio ads on radio broadcasts, print ads for display in newspapers and magazines, and ads on television broadcasts. Our AdSense programs include AdSense for search and AdSense for content.

AdSense for search is our online service for distributing relevant ads from our advertisers for display with search results on our Google Network members sites. To use AdSense for search, most of our AdSense for search partners add Google search functionality to their web pages in the form of customizable Google search boxes. When visitors of these web sites search either the web site or the internet using these customizable search boxes, we display relevant ads on the search results pages, targeted to match user search queries. Ads shown through AdSense for search are text ads.

AdSense for content is our online service for distributing ads from our advertisers that are relevant to content on our Google Network members web sites. Under this program, we use automated technology to analyze the meaning of the content on the web page and serve relevant ads based on the meaning of such content. For example, a web page on an automotive blog that contains an entry about vintage cars might display ads for vintage car parts or vintage car shows. These ads are displayed in spaces that our AdSense for content partners have set aside on their web sites. AdSense for content allows a variety of ad types to be shown, including text ads, image ads, Google Video Ads, link units (which are sets of clickable links to topic pages related to page content), themed units (which are regular text ads with graphic treatments that change seasonally and by geography) and gadget ads (which are customized mini-sites that run as ads on AdSense publisher web sites).

For our online AdSense program, our advertisers pay us a fee each time a user clicks on one of our advertisers ads displayed on our Google Network members web sites or, for those advertisers who choose our cost-per-impression pricing, as their ads are displayed. To date, we have paid most of these advertiser fees to our Google Network members, and we expect to continue doing so for the foreseeable future. We recognize these advertiser fees as revenue and the portion of the advertiser fee we pay to our Google Network members as traffic acquisition costs under cost of revenues. In some cases, we guarantee our Google Network members minimum revenue share payments based on their achieving defined performance terms, such as number of search queries or advertisements displayed. Google Network members do not pay any fees associated with the use of our AdSense program on their web sites.

Our agreements with Google Network members consist largely of uniform online click-wrap agreements that members enter into by interacting with our registration web sites. The standard agreements have no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard agreements and the negotiated agreements contain provisions requiring us to share with the Google Network member most of the advertiser fees generated by users clicking on ads on the Google Network member s web site or, for advertisers who choose our cost-per-impression pricing, as the ads are displayed on the Google Network member s web site.

We have entered into arrangements with certain content providers under which we distribute or license their video and other content. Our agreements with content providers are typically standard agreements with no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard agreements and the negotiated agreements contain provisions requiring us to pay the content providers for the content we license. In a number of these arrangements we display ads on the pages of our web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and Google Network members. We recognize these advertiser fees as revenue. We recognize the portion of the advertiser fees we pay to our content providers as content acquisition costs under cost of revenues and the portion we pay to our Google Network members as traffic acquisition costs. In some cases, we guarantee our content providers minimum revenue share or other payments.

We also distribute our advertisers ads for publication in print media through our Google Print Ads program, and we recognize as revenue the fees charged advertisers when their ads are published in print media. Additionally, we distribute advertisers audio ads for broadcast in radio programs through our Google Audio Ads program, and we recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad.

In the fourth quarter of 2006, we acquired YouTube, a consumer media company for people to watch and share videos worldwide through the web. We recognize as revenue the fees charged advertisers each time an ad or a promoted video is displayed on the YouTube site.

In the second quarter of 2007, we began delivering Google TV ads to viewers and helping advertisers, operators and programmers buy, schedule, deliver and measure ads on television. We recognize as revenue the fees charged advertisers each time an ad is displayed on TV in accordance with the terms of the related agreements.

In the third quarter of 2007, we acquired Postini, a provider of electronic communications security, compliance, and productivity software. We recognize as licensing and other revenue the fees we charge customers for hosting enterprise applications and services ratably over the term of the service arrangement.

In the first quarter of 2008, we acquired DoubleClick, a company that offers online ad serving and management services to advertisers, ad agencies and web site publishers. Fees derived from hosted, or web-based applications are recognized as licensing and other revenues in the period the advertising impressions are delivered.

We believe the factors that influence the success of our advertising programs include the following:

- The relevance, objectivity and quality of our search results and the relevance and quality of ads displayed with each search results page.

- The number of searches initiated at our web sites and our Google Network members web sites and the underlying purpose of these searches (for instance, whether they are for academic research, to find a news article, or to find a product or service).

- The number and prominence of ads displayed on our web sites and our Google Network members web sites.

- The number of visits to, and the content of, our Google Network members web sites and certain of our web sites and the relevance and quality of the ads we display next to this content.

The advertisers return on investment from advertising campaigns on our web sites or our Google Network members web sites compared to other forms of advertising.

The total advertising spending budgets of each advertiser.

The number of advertisers and the breadth of items advertised.

The amount we ultimately pay our Google Network members and our content providers for traffic and content compared to the amount of revenue we generate.

Our minimum fee per click.

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Trends in Our Business

Our business has grown rapidly since inception, resulting in substantially increased revenues, and we expect that our business will continue to grow. However, our revenue growth rate has generally declined over time, and we expect it will continue to do so as a result of a number of factors including increasing competition, the difficulty of maintaining growth rates as our revenues increase to higher levels and the increasing maturity of the online advertising market in certain countries. In addition, the main focus of our advertising programs is to provide relevant and useful advertising to our users, reflecting our commitment to constantly improve their overall web experience. As a result, we expect to continue to take steps to improve the relevance of the ads displayed on our web sites and our Google Network members web sites. These steps include not displaying ads that generate low click-through rates or that send users to irrelevant or otherwise low quality sites and terminating our relationships with those Google Network members whose web sites do not meet our quality requirements. In addition, we may continue to take steps to reduce the number of accidental clicks. These steps could negatively affect the growth rate of our revenues.

Both seasonal fluctuations in internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue and paid click growth rates. In addition, the current general economic downturn will likely affect these seasonal trends, especially the increase in commercial queries that we typically experience in the fourth quarter of each year.

The operating margin we realize on revenues generated from ads placed on our Google Network members web sites through our AdSense program is significantly lower than the operating margin we realize from revenues generated from ads placed on our web sites because most of the advertiser fees from ads served on Google Network members web sites are shared with our Google Network members. For the past four years, growth in advertising revenues from our web sites has exceeded that from our Google Network members web sites. This trend has had a positive impact on our operating margins, and we expect that this will continue for the foreseeable future, although the relative rate of growth in revenues from our web sites compared to the rate of growth in revenues from our Google Network members web sites may vary over time.

We are heavily investing in building the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services, and this may cause our operating margins to decrease. We have experienced and expect to continue to experience substantial growth in our operations as we build our research and development programs, expand our base of users, advertisers, Google Network members, and content providers, and increase our presence in international markets. Also, we have acquired and expect to continue to acquire businesses and other assets from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings. Our full-time employee headcount has significantly increased over the last 12 months, growing from 15,916 at September 30, 2007 to 20,123 at September 30, 2008. We have recently made efforts to improve the discipline of our hiring process and to focus on better managing our expense growth. However, we expect to continue to invest in our business, and this may cause our operating margins to decrease.

We expect our cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2008 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs and credit card and other transaction fees, as well as content acquisition costs. In particular, traffic acquisition costs as a percentage of advertising revenues may increase in the future if we are unable to continue to improve the monetization or generation of revenue from traffic on our web sites and our Google Network members web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

Our international revenues have grown as a percentage of our total revenues to 51% and 52% in the three and nine months ended September 30, 2008, from 48% and 47% in the three and nine months ended September 30, 2007. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs, increases in our direct sales resources and customer support operations and our continued progress in developing localized versions of our products in these international markets, as well as an increase in the value of the Euro, the Japanese yen and other foreign currencies compared to the U.S. dollar over these periods. The increase in the proportion of international revenues derived from international markets increases our exposure to fluctuations in foreign currency to U.S. dollar exchange rates. For example, over the last few months, the strengthening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) had an unfavorable impact on our international revenues. We have a foreign exchange hedging program that is designed to reduce our exposure to fluctuations in foreign currencies, however this program will not fully offset the effect of fluctuations on our revenues and earnings.

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Results of Operations

The following table presents our historical operating results as a percentage of revenues for the periods indicated (unaudited):

	Three Months Ended			Nine Months Ended	
	September 30, 2007	June 30, 2008	September 30, 2008	September 30, 2007	September 30, 2008
Consolidated Statements of Income Data:					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of revenues	39.3	40.0	39.2	39.9	40.0
Research and development	13.0	12.7	12.7	12.7	12.8
Sales and marketing	9.0	9.0	9.2	8.8	8.9
General and administrative	7.6	8.9	9.2	7.7	8.7
Total costs and expenses	68.9	70.6	70.3	69.1	70.4
Income from operations	31.1	29.4	29.7	30.9	29.6
Interest income and other, net	3.6	1.1	0.4	3.7	1.6
Income before income taxes	34.7	30.5	30.1	34.6	31.2
Provision for income taxes	9.5	7.3	6.8	9.1	7.3
Net income	25.2%	23.2%	23.3%	25.5%	23.9%

Revenues

The following table presents our revenues, by revenue source, for the periods presented (in millions, unaudited):

	Three Months Ended			Nine Months Ended	
	September 30, 2007	June 30, 2008	September 30, 2008	September 30, 2007	September 30, 2008
Advertising revenues:					
Google web sites	$ 2,734.8	$ 3,530.1	$ 3,672.1	$ 7,503.2	$ 10,602.6
Google Network web sites	1,454.7	1,655.3	1,679.9	4,152.1	5,021.3
Total advertising revenues	4,189.5	5,185.4	5,352.0	11,655.3	15,623.9
Licensing and other revenues	41.9	181.8	189.4	112.0	470.7
Revenues	$ 4,231.4	$ 5,367.2	$ 5,541.4	$ 11,767.3	$ 16,094.6

The following table presents our revenues, by revenue source, as a percentage of total revenues for the periods presented (unaudited):

	Three Months Ended			Nine Months Ended	
	September 30, 2007	June 30, 2008	September 30, 2008	September 30, 2007	September 30, 2008
Advertising revenues:					
Google web sites	65%	66%	67%	64%	66%
Google Network web sites	34	31	30	35	31

Total advertising revenues	99	97	97	99	97
Google web sites as % of advertising revenues	65	68	69	64	68
Google Network web sites as % of advertising revenues	35	32	31	36	32
Licensing and other revenues	1%	3%	3%	1%	3%

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Growth in our revenues in the three months ended September 30, 2008 compared to the three months ended June 30, 2008 resulted primarily from growth in advertising revenues from our web sites, and to a lesser extent, Google Network web sites. Advertising revenue growth for Google web sites and Google Network web sites resulted primarily from an increase in the number of paid clicks and ads displayed through our programs, partially offset by a decrease in the average fees paid by our advertisers. The increase in the number of paid clicks and ads displayed through our programs was due to an increase in aggregate traffic on our web sites and our partners web sites, certain monetization improvements and the continued global expansion of our products, our advertiser base and our user base, as well as an increase in the number of Google Network members and distribution partners. The decrease in the average fees paid by our advertisers was affected by the increase in the value of the U.S. dollar compared to other foreign currencies.

Growth in our revenues in the three months ended September 30, 2008 compared to the three months ended September 30, 2007 and in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 resulted olders

(a) Our 2004 Annual and Special Meeting of Shareholders (the Meeting) was held on April 21, 2004.

(b), (c) The following three matters, as described in our Proxy Circular and Statement for the Meeting, were submitted to a vote of shareholders at the Meeting; (i) the approval of a resolution confirming an amendment to the Company s by-law to declassify the Company s Board of Directors and provide for the annual election of all of the Company s Directors (the By-Law Confirmation Resolution), (ii) the election of Directors, and (iii) the appointment of Auditors. The following describes these matters and the voting data on each matter:

(1) *By-Law Confirmation Resolution.* The shareholders approved a resolution confirming an amendment to the Company s by-law to declassify the Company s Board of Directors and provide for the annual election of all of the Company s Directors. In support of the vote, which was conducted by a show of hands, the following proxies voting on this motion had been received prior to the Meeting:

Votes For	%	Votes Against	%	Abstained/Withheld	%
103,810,994	99.59	426,942	0.40	3,709	0.01

(2) *Election of Directors.* The individuals listed below were nominated and, in the absence of further nominations, elected Directors of the Company to hold office for a term expiring immediately prior to the Company s next Annual Meeting of Shareholders to be held in 2005. In support of the vote, which was conducted by a show of hands, the following proxies voting on this motion had been received prior to the Meeting:

Name of Nominee	Votes For	%	Abstained/Withheld	%
Glen A. Barton	105,059,694	99.88	120,471	0.12
Angus A. Bruneau	105,051,966	99.87	128,199	0.13
Ronald C. Cambre	105,054,216	99.88	125,949	0.12
Scott M. Hand	104,731,179	99.57	448,986	0.43
Chaviva M. Hosek	105,162,279	99.98	17,886	0.02
Peter C. Jones	105,163,508	99.98	16,657	0.02
John T. Mayberry	105,171,800	99.99	8,365	0.01
David P. O Brien	104,993,286	99.82	186,879	0.18
Roger Phillips	104,993,756	99.82	186,409	0.18
James M. Stanford	104,878,175	99.71	301,990	0.29

(3) *Appointment of Auditors.* PricewaterhouseCoopers LLP were appointed Auditors of the Company to serve until our next Annual Meeting of Shareholders to be held in 2005 and the Audit Committee of the Board of Directors were authorized to fix the remuneration to be paid to the Auditors. In support of the vote, which was conducted by a show of hands, the following proxies voting on this motion had been received prior to the Meeting:

Votes For	%	Abstained/Withheld	%
104,246,324	99.86	152,212	0.14

Item 6. ***Exhibits and Reports on Form 8-K***

(a) *Exhibits*

31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Rule 13a 14(a) of the U.S. Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Rule 13a 14(a) of the U.S. Securities Exchange Act of 1934, as amended.
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) *Reports on Form 8-K*

Current Report on Form 8-K dated April 20, 2004 covering Item 12 of Form 8-K relating to the Registrant s press release on its first quarter 2004 financial and operating results.

Current Report on Form 8-K dated May 25, 2004 covering Items 5 and 9 of Form 8-K relating to the Registrant s update on Phase 2 of the Goro project review.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INCO LIMITED

Date: August 6, 2004	By:	/s/ S. F. FEINER
		S. F. Feiner Executive Vice-President, General Counsel and Secretary
Date: August 6, 2004	By:	/s/ R. A. LEHTOVAARA
		R. A. Lehtovaara Vice-President and Comptroller

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